



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 3, 2008

Iran's President Mahmoud Ahmadinejad said the world market is well supplied and added that rising oil prices were being artificially driven by forces trying to further their geopolitical aims. He also said some big powers were also seeking to devalue the dollar to impose their will on the market. Separately, Iran's President accused the US of bringing nothing but threats, pressure and coercion to the Middle East.

Kuwait's Oil Minister Mohammad al-Olaïm said that OPEC was

Market Watch

Federal Reserve chairman Ben Bernanke said the dollar's fall against other currencies has led to an unwelcome increase in US inflation and may be a factor in inflation expectations. He also suggested that the Fed was unlikely to lower official interest rates further, though his remarks suggested that barring a further increase in inflation expectations, the fed probably would not contemplate higher rates until there is more stabilization in home prices. He also signaled that downside risks to the economy remain even though the US is likely to see better economic conditions in the second half of the year after a weak first half.

China could face blackouts in the coming months in part due to last month's earthquake, which damaged several hydropower dams and curtailed coal mining. Guangdong province would face the most power shortages, with nearby Guizhou and Yunnan also expected to see demand outstrip supply. Power generation has been impacted by the damage to the hydropower stations. Coal reserves at big power plants in Sichuan have been restored following the earthquake but there was still a major shortage elsewhere.

The European Union statistics office reported that Euro zone producer prices in April increased 0.8%, up from 0.7% in March.

The founder of the Earth Policy Institute said halting production of ethanol from grains would help ease world grain shortages in the short term.

The American Petroleum Institute said it was delaying the release of its weekly oil statistics by five minutes to Wednesdays at 10:35am. It said it was delaying the release to coincide with the new release schedule for the EIA's weekly inventory report.

The US Commodity Futures Trading Commission last week said it planned to require more information from dealers of energy swaps and obtain details on investment funds using them to track the returns of commodity indexes. However while some swaps are cleared by regulated exchanges, many settle discreetly between two parties. Banks and hedge funds that use swaps often lay off their risks in the regulated markets, meaning that a meltdown in the swaps market could eventually affect prices that refiners and consumers pay for their crude oil and gasoline. The CFTC also plans to collect data from large traders on the over the counter market.

prepared to pump more oil if the market needs it. He said high oil prices were due to speculation and weakness of the US dollar and not due to any lack of supply. Kuwait's Oil Minister also stated that Kuwait was still studying a plan to produce more oil from some northern oil fields called Project Kuwait.

A chief economist at a Saudi Arabian financial company said oil prices have peaked and would fall as the weakening US economy hits demand.

Speaking to a US congressional committee, hedge fund manager George Soros said the increase in oil prices show signs of a bubble. However he added that a crash was not imminent. He said rising oil prices were the result of a number of fundamental changes and factors in the market but that the ability of investment institutions to invest in the futures market was exaggerating price rises and creating an oil market bubble. He also stated that increasing margin requirements would have no effect on commodity index buying because they use cash to finance their trading.

The managing director of the IMF, Dominique Strauss-Kahn said world oil prices have likely peaked as a result of the slowdown in world economic growth. He also said the IMF saw tight credit conditions persisting but believed there was no risk of a credit crunch in Europe. He added that it was too soon to

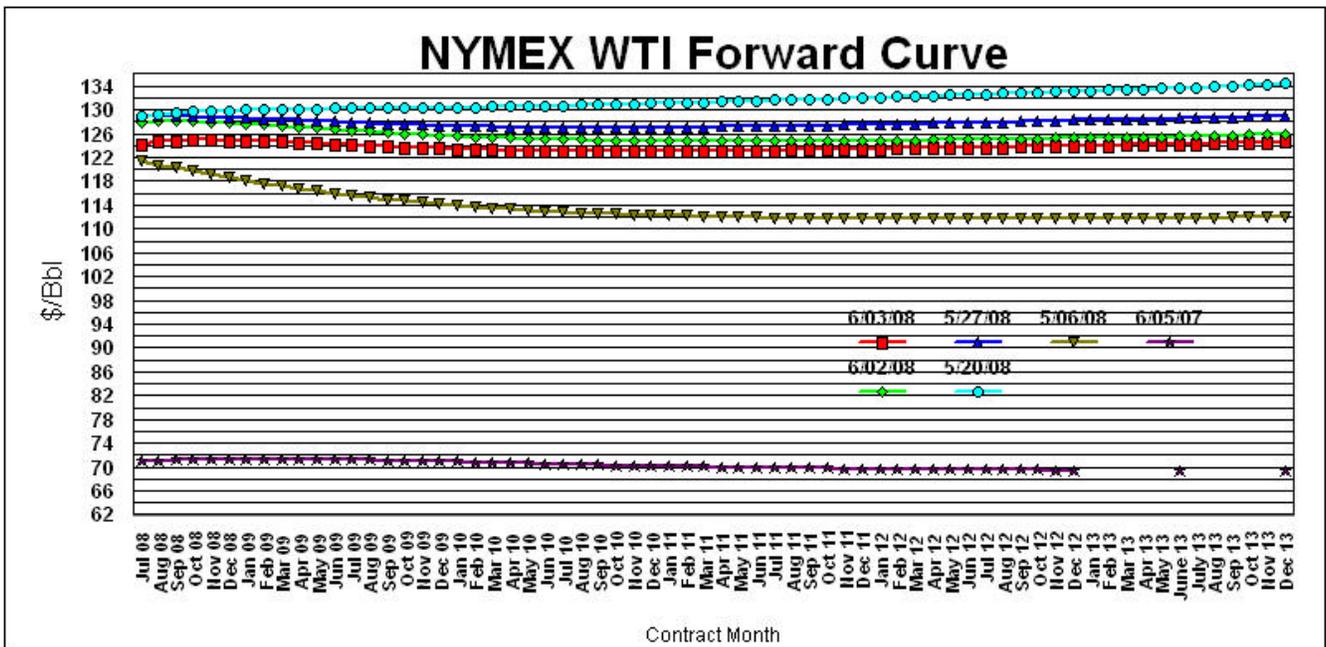
say whether the crisis of the US subprime mortgage sector was over and that the world economic slowdown was likely to be long lasting but not deep.

May Calendar Averages
CL – 126.04
HO – 368.08
RB – 337.16

Iraq's Kurdish regional government is expected to make new proposals to Iraq in two weeks to settle differences over the federal oil law.

Disputes between the largely autonomous northern region of Kurdistan and Baghdad have delayed the law for over a year. The two sides are expected to discuss a package of proposals covering the oil law, revenue sharing, the functions of the oil ministry and the national oil company. The Kurdish regional government is also expected to hold talks with the federal government over Iraq's decision to halt oil exports to Austria's OMV and South Korea's SK Energy after the companies signed oil deals with the Kurdish region.

Hedge fund manager T. Boone Pickens said the CFTC's investigation into whether speculators



manipulated oil prices was a waste of time. He said oil prices increased because there was 85 million bpd of oil available in the world energy market while demand stood at 86.4 million bpd.

According to the MasterCard Advisors LLC, US gasoline demand in the week ending May 30 fell by 3.6% on the week or 342,000 bpd to 9.043 million bpd, the lowest level since April 4. In the latest four weeks, demand was down 6% from a year ago. Year to date gasoline sales are down 1.81% on the year as high prices and a soft economy continue to impact demand. On a nationwide average, retail prices for regular gasoline increased by 2.6% to \$3.94/gallon.

The US ambassador to the UN, Zalmay Khalilzad said the Security Council would await the outcome of the EU foreign policy chief Javier Solana's upcoming visit to Iran before it considers its next move in the standoff over Iran's nuclear program.

Refinery News

Motiva Enterprises said that power was restored at its 275,000 bpd Port Arthur, Texas refinery and the facility would resume full operations in a couple of days following a power outage on Monday morning.

ConocoPhillips' 76,000 bpd Rodeo, California refinery reported flaring on Monday. According to a reported filed with the California Office of Emergency Services said the flaring was caused by a fuel gas compressor that was offline due to a maintenance issue.

Several units at the 70,000 bpd Big West Refinery in Bakersfield, California are in restart mode after Friday's sulfur unit breakdown. Its 23,000 bpd coker unit was among the units affected by the sulfur unit problem.

Valero Energy Corp said it suffered a problem with a CO boiler at its 210,000 bpd Delaware City, Delaware refinery but added that its operations were not impacted. Meanwhile an associated 50,000 bpd coker unit was still in operation and moving toward planned rates. The coker unit was restarted in late May after planned work.

Neste Oil said it was still starting up its Porvoo diesel line following a fire in April.

Ineos Plc and the Unite union continued their talks over workers' pensions at the 210,000 bpd Grangemouth refinery. The Grangemouth refinery, which was shut on April 19 ahead of a two day strike over pensions that started on April 27, was back online at the end of May.

French truck drivers and farmers protesting high fuel costs blocked Total's La Mede refinery fuel depot and a fuel depot at Lyon. Fishermen, farmers, ambulance and taxi drivers have taken turns to block French refineries and fuel depots to put pressure on the government to cut their fuel costs. Meanwhile, British fishermen also protested in London on Tuesday over high fuel prices.

Mexico reopened its Dos Bocas oil terminal while its Cayo Arcas oil terminal remained shut after the ports were shut due to rough seas caused by the proximity of tropical depression Arthur.

Nippon Oil increased the capacity of the alkylation unit at its 250,000 bpd Mizushima refinery from 7,600 bpd to 9,308 bpd as of May 28. Separately, Nippon Oil said it would shut its Kawasaki naphtha cracker for a month of routine maintenance starting in the second half of August.

Russia's Energy Ministry reported that the country's exports of gasoline, gas oil and fuel oil increased in May as oil companies rushed to ship more oil products abroad ahead of an increase in export duties. Russian oil companies exported 8,007 tons/day of gasoline in the first 28 days of May, up by

3.3% from 7,752 tons/day in the first 29 days in April. Exports of gasoil increased by 9.5% to 85,075 tons/day while exports of fuel oil increased to 110,258 tons/day.

Russia's Lukoil said it would keep its June, July and August oil product exports from its Baltic Sea terminal of Vysotsk at the same level as January-May. Its exports in June, July and August would amount between 1 million to 1.15 million tons each month. It is expected to export 300,000 to 350,000 tons of fuel oil, 400,000 to 450,000 tons of diesel and 300,000 to 350,000 tons of vacuum gasoil.

Georgia's Black Sea port of Batumi shipped 718,800 tons of crude oil and refined products in May, up from 717,500 tons last year but down from 845,900 tons in April.

Sinopec said it would cut its ethylene production by 65,000 tons in June and increase its oil product output by 200,000 tons. It would also import 2 million tons of refined oil products in the second quarter of this year as it seeks to increase supplies to the domestic market.

China's Ministry of Commerce said China would ask its oil firms to speed up building commercial oil reserves as one of the ways to cope with turbulence in the oil market. A draft energy legislation, which has yet to be submitted to the National People's Congress, would also require oil firms to build their own crude oil reserves to supplement a government owned strategic inventory.

Sinopec is scheduled to import 2 million tons of refined oil products in the second quarter of this year to increase supplies to the domestic market. Sinopec also stated that it planned to cut ethylene production by 65,000 tons in June, allowing it to boost refined oil product output by 200,000 tons.

Production News

Royal Dutch Shell Plc and StatoilHydro ASA may be forced to cut as much as 220,000 bpd of North Sea oil production if rig managers strike this weekend. StatoilHydro said a potential strike by the Lederne union would shutdown about 150,000 bpd of production from its Snorre A and Vigdis platforms. The strike may also cut production at Shell's Draugen A platform. State-mediated talks between Lederne and a group representing oil companies in Norway were due to start on Thursday and last until midnight Friday.

Marathon Corp said the start of oil exports from the 120,000 bpd Norwegian oil project Alvheim is imminent. Plateau production is expected to start between four to six months after the oil starts to flow.

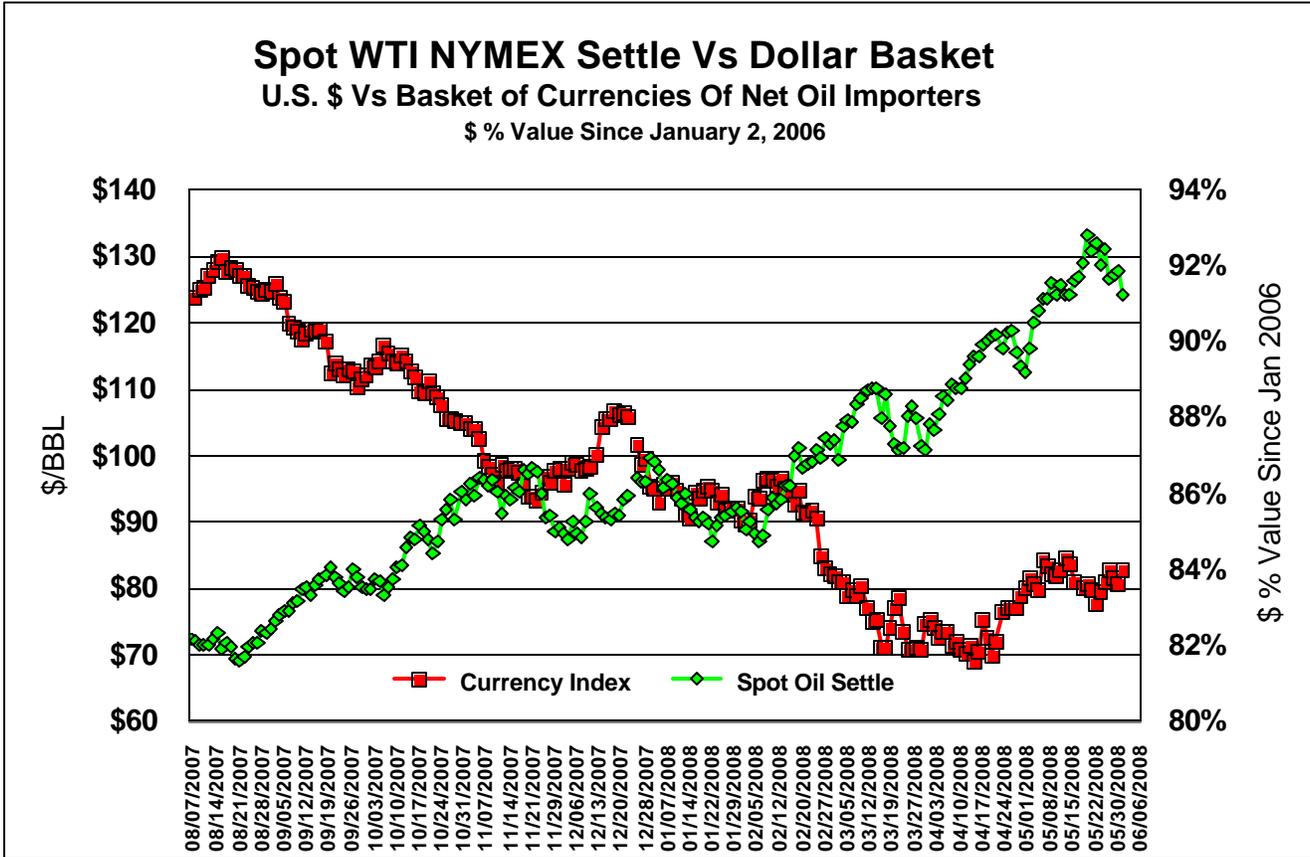
According to a Reuters survey, OPEC's total oil production is expected to increase to 32.12 million bpd in May from 31.71 million bpd in April. OPEC's production, excluding Iraq, increased to 29.68 million bpd, up from 29.41 million bpd in April.

Iraq's oil exports reached 1.99 million bpd in May, with 1.57 million bpd from the south and 420,000 bpd from the north, according to Reuters. Iraq's Oil Minister Hussein al-Shahristani said that oil exports in May exceeded 2 million bpd.

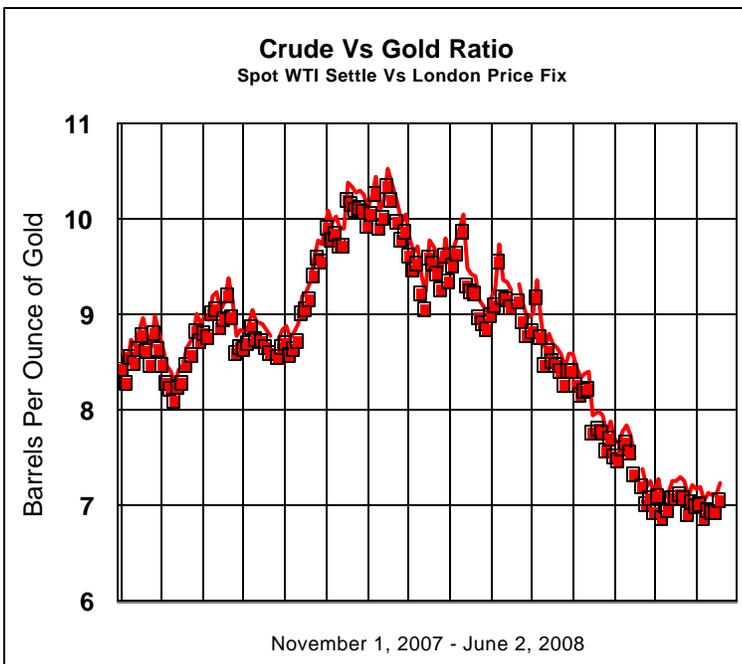
The Canadian Association of Petroleum Producers may cut its oil production forecast due to a recent series of delays in oil sands projects. The CAPP may put its production forecast at between about 3.5 million and 3.8 million bpd by 2020, down from its last outlook at the top of that range.

Kazakhstan's Prime Minister Karim Masimov said oil and mining companies operating in Kazakhstan would have to obtain special permission from parliament if they want to avoid paying new taxes and

export duties next year. Kazakhstan introduced an oil export duty last month however most large foreign companies working under production sharing agreements have been exempt.



Mexico's oil production increased 30,000 bpd on the month to 2.8 million bpd in May. Pemex recently



lowered its production target for this year, partly due to the pipeline problems in April and May. Its output is expected to average 2.9 million bpd, down from an original target of 3.1 million bpd.

OPEC's news agency reported that OPEC's basket of crudes increased to \$122.10/barrel on Monday, up from Friday's \$121.68/barrel.

India's central bank said it would allow Indian oil refiners to hedge crude imports on overseas exchanges.

India may increase its fuel prices on Wednesday to ease pressure on state oil companies. The federal cabinet and a ministerial committee were scheduled to meet on Wednesday. Analysts said the government may increase prices of petrol

and diesel by 5-10%. Increasing crude costs have forced several Asian countries to consider lowering fuel subsidies and raise prices. Meanwhile Malaysia said it would scrap fuel price controls in August in a move that could double Asia's pump prices and increase inflation. The government is expected to announce plans on Wednesday to overhaul its fuel subsidy system.

Indonesia's Pertamina increased its prices for non-subsidized fuel products starting June 1 amid the higher world prices. It increased the price of high octane gasoline Pertamina Plus from 9,250 rupiah/liter to 10,050 rupiah/liter while the price of Pertamina was increased from 8,950 rupiah/liter to 9,800 rupiah/liter.

Market Commentary:

Energy prices came under significant pressure today as U.S. Federal Reserve Chairman Ben Bernanke hinted that interest rates would not be lowered and that he is aware of the impact the weak economy is having. Billionaire George Soros spoke before congress today, saying that, high-energy prices due impart to speculation from index funds and tight balance of supply and demand, has led to an investor bubble. A strong dollar also led to lower prices today, as investors pulled money out of commodities. It appears that the tone of this market has become bearish over the last couple of trading sessions. Since May 27, the open interest in July08 through December08 total puts has increased by 148, 958, of that the \$120.00 puts have increase by 20,364, as opposed to total calls of 107,599. The price of a barrel of crude oil vs. the basket of currencies has lost value over the past seven trading sessions, while the value of the basket of currencies has been maintained between 83% and 85% since the first week of May. At the onset of this time frame, the price of crude oil moved from just above \$110.00 to its contract high of \$135.09. The front end of the forward curve for crude oil dipped further today, which is another sign of weakness in this market. Basis the July contract, prices remained above the \$123.55 downward trendline, however based on technicals, we would continue to look for further weakness in this market and a penetration of this trendline to take place. Our initial downside objective is \$120.65, with a potential to test the previous low of \$109.60. The front month spread based on a continuation chart, settled below its recent low of -.37, and is now set up to test the low of -.45 made back on December 17, 2007. With the index rolls starting this Friday, we would anticipate continued pressure on this spread and therefore would like to sell the July contract against the August contract with a break below -.40. Heating oil has once again settled back in the ascending channel on the spot continuation chart and has settled below the \$3.6535, its 38.2% retracement between the range of \$4.0153 and \$3.0681. We would continue to look for further pressure on this product with an ultimate test of the channel bottom, which tomorrow is set at \$3.3620. The December 08/June09 heating oil spread is slowly approaching our initial downside objective of .1225. We would anticipate a test of this previous low, covering any shorts on a bounce off of this level and adding to any shorts below this level. Gasoline has now traded and settled back within the ascending channel on the spot continuation chart after spending ten trading sessions above it. The bottom of this channel comes into tomorrow's session set at \$3.1143. We would look for a test at this channel bottom, barring any big surprises from tomorrow's API/DOE numbers. Should this support level become broken, we would look for a test of the \$3.0926 previous low. The July gasoline crack continues to gain momentum, surpassing its previous high of \$15.58. Slow stochastics are trending in overbought territory and do not appear to be setting up for a cross to the downside. For Wednesday, we would pay careful attention to the API/DOE release, focusing on the demand factor. Should they be favorable to gasoline, we would add to existing length, likewise, we would exit any length if the numbers were bearish for gasoline. Total open interest for crude oil is 1,355,186 down 13,365, July08 335,295 down 12,098, August08 121,909 up 7,898, December 08 196,677 down 10,220. Total open interest for heating oil 211,782 up 8,275 June08 1,243 down 272 and July 72,361 up 2,653. Total open interest for gasoline, 258,246 up 317, June 08 1,686 down 411 and July 101,559 down 988.

July Crude Support	July Crude Resistance
120.65,119.36,109.60,98.60, 85.40	135.10,136.80,141.00,147.54
Heating oil support	Heating oil resistance
3.5425 , 3.5100, 3.3500, 3.1680, 3.0980	4.0315,4.0475,4.0640
Gasoline support	Gasoline resistance
3.3075,309.20,3.0730, 3.0400, 3.0250, 2.9255	3.63.45,3.755,34655